

FRANKENLUST TOWNSHIP

Bay County, Michigan

FINANCIAL STATEMENTS

June 30, 2008

FRANKENLUST TOWNSHIP

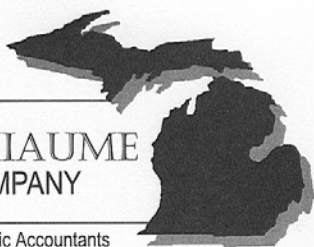
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INDEPENDENT AUDITORS' REPORT

To the Township Board
Frankenlust Township, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankenlust Township as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Frankenlust Township's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the portion of the financial statements of the Township's sewer and water system that were managed by the Bay County Department of Water and Sewer. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Township's sewer and water system managed by the Bay County Department of Water and Sewer, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Frankenlust Township's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Berthiaume & Co.

Saginaw, Michigan
September 24, 2008

BASIC FINANCIAL STATEMENTS

FRANKENLUST TOWNSHIP

STATEMENT OF NET ASSETS

June 30, 2008

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
Assets:			
Cash and cash equivalents	\$ 924,599	\$ 966,462	\$ 1,891,061
Investments	-	257,765	257,765
Receivables	100,225	882,013	982,238
Prepaid expenses	-	5,318	5,318
Restricted cash and cash equivalents	-	498,506	498,506
Capital assets:			
Nondepreciable capital assets	180,000	-	180,000
Depreciable capital assets, net	366,863	8,904,095	9,270,958
Total assets	<u>1,571,687</u>	<u>11,514,159</u>	<u>13,085,846</u>
Liabilities:			
Accounts payable and accrued expenses	56,561	66,842	123,403
Deferred revenue	-	88,253	88,253
Long-term liabilities:			
Due within one year	-	559,764	559,764
Due in more than one year	-	3,583,093	3,583,093
Total liabilities	<u>56,561</u>	<u>4,297,952</u>	<u>4,354,513</u>
Net assets:			
Invested in capital assets, net of related debt	546,863	4,770,759	5,317,622
Restricted for:			
Debt service	-	498,506	498,506
State construction code activities	14,618	-	14,618
Unrestricted	<u>953,645</u>	<u>1,946,942</u>	<u>2,900,587</u>
Total net assets	<u>\$ 1,515,126</u>	<u>\$ 7,216,207</u>	<u>\$ 8,731,333</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
<i>Governmental activities:</i>				
General government	\$ 282,353	\$ -	\$ 9,397	\$ (272,956)
Public safety	226,933	129,552	3,637	(93,744)
Public works	207,021	146,690	15,043	(45,288)
Community and economic development	19,477	5,028	-	(14,449)
Recreation and culture	8,784	-	4,050	(4,734)
Total governmental activities	<u>\$ 744,568</u>	<u>\$ 281,270</u>	<u>\$ 32,127</u>	<u>\$ (431,171)</u>
<i>Business-type activities:</i>				
Water and Sewer	<u>\$ 1,160,145</u>	<u>\$ 1,229,067</u>	<u>\$ 47,418</u>	<u>\$ 116,340</u>
Total business-type activities	<u>\$ 1,160,145</u>	<u>\$ 1,229,067</u>	<u>\$ 47,418</u>	<u>\$ 116,340</u>

continued

The accompanying notes are an integral part of these financial statements.

	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>
<i>Changes in net assets:</i>			
Net (Expense) Revenue	\$ (431,171)	\$ 116,340	\$ (314,831)
General revenues:			
Taxes			
Property taxes, levied for general purpose	210,424	-	210,424
Property taxes, levied for fire protection	84,769	-	84,769
Franchise fees	29,798	-	29,798
Grants and contributions not restricted to specific programs	175,785	-	175,785
Unrestricted investment earnings	28,093	62,378	90,471
Miscellaneous	8,919	-	8,919
Total general revenues	537,788	62,378	600,166
Change in net assets	106,617	178,718	285,335
Net assets, beginning of year	1,408,509	7,037,489	8,445,998
Net assets, end of year	\$ 1,515,126	\$ 7,216,207	\$ 8,731,333

FRANKENLUST TOWNSHIP

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2008

	<i><u>Major Governmental Funds</u></i>			
	<i><u>General Fund</u></i>	<i><u>Trash Removal Fund</u></i>	<i><u>Nonmajor Governmental Funds</u></i>	<i><u>Total Governmental Funds</u></i>
Assets:				
Cash and cash equivalents	\$ 417,807	\$ 121,934	\$ 384,858	\$ 924,599
Taxes receivable	17,482	-	7,108	24,590
Accounts receivable	7,877	9,074	-	16,951
Due from other governmental units	58,684	-	-	58,684
Total assets	<u>\$ 501,850</u>	<u>\$ 131,008</u>	<u>\$ 391,966</u>	<u>\$ 1,024,824</u>
Liabilities and Fund Balances:				
<i>Liabilities:</i>				
Accounts payable	\$ 37,007	\$ 14,229	\$ 2,770	\$ 54,006
Accrued expenses	2,555	-	-	2,555
Total liabilities	<u>39,562</u>	<u>14,229</u>	<u>2,770</u>	<u>56,561</u>
<i>Fund balances:</i>				
Reserved for:				
State construction code activities	14,618	-	-	14,618
Unreserved:				
General fund	447,670	-	-	447,670
Special revenue funds	-	116,779	389,196	505,975
Total fund balances	<u>462,288</u>	<u>116,779</u>	<u>389,196</u>	<u>968,263</u>
Total liabilities and fund balances	<u>\$ 501,850</u>	<u>\$ 131,008</u>	<u>\$ 391,966</u>	<u>\$ 1,024,824</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2008

Total fund balances for governmental funds \$ 968,263

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	1,119,375	
Less accumulated depreciation	<u>(572,512)</u>	<u>546,863</u>
Net assets of governmental activities		<u>\$ 1,515,126</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	<i>Major Governmental Funds</i>			<i>Total</i>
	<i>General</i>	<i>Trash</i>	<i>Nonmajor</i>	<i>Total</i>
	<i>Fund</i>	<i>Removal</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Fund</i>	<i>Fund</i>	<i>Funds</i>	<i>Funds</i>
Revenues:				
Property taxes	\$ 210,424	\$ -	\$ 84,769	\$ 295,193
Licenses and permits	154,417	-	-	154,417
State grants	191,508	-	3,637	195,145
Charges for services	12,543	139,175	4,963	156,681
Interest and rents	17,253	2,808	8,032	28,093
Other revenue	17,606	-	4,050	21,656
Total revenues	603,751	141,983	105,451	851,185
Expenditures:				
Current				
General government	233,226	-	-	233,226
Public safety	188,163	-	4,104	192,267
Public works	36,082	170,939	-	207,021
Community and economic development	19,106	-	-	19,106
Recreation and culture	250	-	8,705	8,955
Other	47,102	-	-	47,102
Capital outlay	10,124	-	-	10,124
Total expenditures	534,053	170,939	12,809	717,801
Excess (deficiency) of revenues over expenditures	69,698	(28,956)	92,642	133,384
Other financing sources (uses):				
Transfers from other funds	-	-	4,238	4,238
Transfers to other funds	(4,238)	-	-	(4,238)
Total other financing sources (uses)	(4,238)	-	4,238	-
Net change in fund balances	65,460	(28,956)	96,880	133,384
Fund balances, beginning of year	396,828	145,735	292,316	834,879
Fund balances, end of year	\$ 462,288	\$ 116,779	\$ 389,196	\$ 968,263

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ 133,384

Total change in net assets reported for governmental activities in the statement
of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is depreciated over their
estimated useful lives and reported as depreciation expense.

Capital outlay	12,563	
Less depreciation expense	<u>(39,330)</u>	<u>(26,767)</u>

Change in net assets of governmental activities \$ 106,617

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

PROPRIETARY FUND STATEMENT OF NET ASSETS

June 30, 2008

	<i>Water and Sewer Fund</i>
Assets:	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 966,462
Investments	257,765
Accounts receivable	46,812
Special assessments receivable	10,729
Accrued interest receivable	3,177
Prepaid expenses	5,318
Total current assets	<u>1,290,263</u>
<i>Noncurrent assets:</i>	
Special assessments receivable	821,295
Restricted cash and cash equivalents	498,506
Capital assets:	
Depreciable capital assets, net	<u>8,904,095</u>
Total noncurrent assets	<u>10,223,896</u>
Total assets	<u>11,514,159</u>
Liabilities:	
<i>Current liabilities:</i>	
Accounts payable	21,132
Accrued expenses	649
Accrued interest payable	45,061
Deferred revenue	88,253
Current portion of compensated absences payable	1,428
Current portion of long-term debt	<u>558,336</u>
Total current liabilities	<u>714,859</u>
<i>Noncurrent liabilities:</i>	
Compensated absences payable	8,093
Long-term debt	<u>3,575,000</u>
Total noncurrent liabilities	<u>3,583,093</u>
Total liabilities	<u>4,297,952</u>
Net assets:	
Invested in capital assets, net of related debt	4,770,759
Restricted for:	
Debt service	498,506
Unrestricted	<u>1,946,942</u>
Total net assets	<u>\$ 7,216,207</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2008

	<i>Water and Sewer Fund</i>
Operating revenues:	
Charges for services	\$ 936,302
Charges for hook-ups and connections	<u>292,765</u>
Total operating revenues	<u>1,229,067</u>
Operating expenses:	
Personnel	136,234
Supplies	86
Contracted services	304,821
Purchase of water	148,025
Administrative expense	32,082
Utilities	3,533
Repairs and maintenance	50,698
Other services and supplies	9,468
Depreciation	<u>277,434</u>
Total operating expenses	<u>962,381</u>
Operating income	<u>266,686</u>
Non-operating revenues (expenses):	
Interest income	62,378
Special assessments interest	47,418
Interest expense	<u>(197,764)</u>
Total non-operating revenues (expenses)	<u>(87,968)</u>
Net income	178,718
Net assets, beginning of year	<u>7,037,489</u>
Net assets, end of year	<u><u>\$ 7,216,207</u></u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	<i><u>Water and Sewer Fund</u></i>
Cash flows from operating activities:	
Receipts from customers	\$ 1,280,796
Payments to employees	(137,187)
Payments to suppliers for goods and services	<u>(545,702)</u>
Net cash provided by operating activities	<u>597,907</u>
Cash flows from capital and related financing activities:	
Special assessments interest	47,418
Principal payments	(533,336)
Interest paid	<u>(197,764)</u>
Net cash used by capital and related financing activities	<u>(683,682)</u>
Cash flows from investing activities:	
Interest	<u>62,378</u>
Net cash provided by investing activities	<u>62,378</u>
Net decrease in cash and cash equivalents	(23,397)
Cash, cash equivalents and investments, beginning of year	<u>1,746,130</u>
Cash, cash equivalents and investments, end of year	<u><u>\$ 1,722,733</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 266,686
Adjustments:	
Depreciation	277,434
Change in assets and liabilities:	
Accounts receivable	(15,630)
Special assessments receivable	115,811
Accrued interest receivable	(2)
Prepaid expenses	545
Accounts payable	7,007
Accrued expenses	254
Accrued interest payable	(4,541)
Deferred revenue	(48,450)
Compensated absences payable	<u>(1,207)</u>
Net cash provided by operating activities	<u><u>\$ 597,907</u></u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

FIDUCIARY FUND
STATEMENT OF NET ASSETS
June 30, 2008

	<u><i>Agency Fund</i></u>
Assets:	
Cash and cash equivalents	\$ 24
Total assets	<u>24</u>
Liabilities:	
Accounts payable	24
Due to other governmental units	<u>-</u>
Total liabilities	<u>24</u>
Net Assets:	
Unrestricted	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frankenlust Township was established in 1881 and is located in Bay County, Michigan. Township government is directed by a five member Township Board.

The accounting policies of Frankenlust Township conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Township, and its component units, if any. In evaluating the Township as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Township may be financially accountable and, as such, should be included within the Township's financial statements. The Township (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units included in the Township's reporting entity.

These financial statements include the portion of the Township's sewer and water system that is managed as an Agency Fund by the Bay County Department of Water and Sewer. The County managed portion of the Township's Sewer Fund and Water Fund is audited by other auditors as of and for the year ended December 31, 2007.

A separate audited December 31, 2007 financial report is available from the Bay County Department of Water and Sewer, 3933 Patterson Road, Bay City, Michigan, 48706.

Joint Venture – The Bay Area Utilities Authority was formed in 1998 by Frankenlust Township, Pinconning Township and Williams Charter Township to issue bonds for the benefit of the participating townships. Frankenlust Township has two contracts payable with the Authority. These contracts payable are included as long-term debt in the Township's Water and Sewer Fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Township’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Township does not allocate indirect costs. In creating the government-wide financial statements the Township has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Township as an entity and the change in the Township’s net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Township reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the Township. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Trash Removal Fund – The Trash Removal Fund is used to account for the fees collected from residents to provide trash removal services.

The Township reports the following major enterprise fund:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the revenues and expenses for the operation of the Township's water and sewer system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Assets, Liabilities, and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Township considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools, if any, to be cash equivalents.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Township defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2003. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Equipment	5-25 years
Land improvements	20 years
Site improvements	20 years
Water and sewer system	40-50 years

Compensated Absences – It is the Township’s policy to not permit employees to accumulate earned but unused sick and vacation days. The compensated absences liability shown in the proprietary fund and government-wide statement of net assets is derived from the portion of the Township’s Water and Sewer Fund that is handled as an Agency Fund by the Bay County Department of Water and Sewer. The liability is accrued in accordance with the policy applicable to employees of the Bay County Department of Water and Sewer.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables, if any, were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental and business-type activities columns.

Property Taxes:

Properties are assessed as of December 31 and the related property taxes attach as an enforceable lien on property as of December 1 of the following year. These taxes are due on or before February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The 2007 taxable valuation of the Township totaled \$134,272,560 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments), on which ad valorem taxes levied consisted of 1.2188 mills for the Township’s operating purposes and .6355 mills for fire.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the proposed operating budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are conducted to obtain taxpayer comments.
3. The budgets are adopted at the activity level by a majority voted of the Township Board.
4. The adopted budgets are used as a management control device during the year for all budgetary funds.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund budget and Trash Removal Fund as originally adopted and amended by the Township Board is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Township did incur expenditures in excess of the amounts budgeted, as follows:

	<i><u>Final Budget</u></i>	<i><u>Actual</u></i>	<i><u>Excess</u></i>
Trash Removal Fund			
Public works	\$ 170,000	\$ 170,939	\$ 939

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

State Construction Code Act:

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2007		\$	-
Adjustment to beginning balance for amended allocation of indirect costs			
in prior years			17,022
Current year building permit revenue			124,589
Related expenses:			
Direct costs	95,155		
Indirect costs	31,838		126,993
Cumulative surplus at June 30, 2008		\$	<u>14,618</u>

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township's deposits and investments are subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The Township does not have a deposit policy for custodial credit risk. At year-end, the Township had \$2,479,205 of bank deposits (certificates of deposit, checking and savings accounts), of which \$640,212 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Of the balance uninsured and uncollateralized, \$409,806 is maintained in sweep accounts. The Township believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

Investments:

The Township Water and Sewer Fund reports \$257,765 of investments as of year end. These monies are being held as part of an investment pool of Bay County. The County has invested in external investment pools, government obligations, commercial paper and money market funds. Information regarding these investments and risk associated with these investments may be obtained from the Bay County DWS Financial Report for the year ended December 31, 2007.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 4: CAPITAL ASSETS

Capital assets activity of the Township's governmental and business-type activities at June 30, 2008 was as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2008</u>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 180,000	\$ -	\$ -	\$ 180,000
Depreciable capital assets				
Buildings and improvements	338,549	5,618	-	344,167
Equipment	500,691	3,945	-	504,636
Land improvements	35,401	-	-	35,401
Site improvements	26,171	3,000	-	29,171
Vehicles	26,000	-	-	26,000
Total depreciable capital assets	926,812	12,563	-	939,375
Accumulated depreciation	(533,182)	(39,330)	-	(572,512)
Depreciable capital assets, net	393,630	(26,767)	-	366,863
Governmental activities, capital assets, net	<u>\$ 573,630</u>	<u>\$ (26,767)</u>	<u>\$ -</u>	<u>\$ 546,863</u>
Business-type activities:				
Depreciable capital assets				
Water and sewer system	\$ 12,858,523	\$ -	\$ -	\$ 12,858,523
Total depreciable capital assets	12,858,523	-	-	12,858,523
Accumulated depreciation	(3,676,994)	(277,434)	-	(3,954,428)
Business-type activities, capital assets, net	<u>\$ 9,181,529</u>	<u>\$ (277,434)</u>	<u>\$ -</u>	<u>\$ 8,904,095</u>

Depreciation expense was charged to programs of the governmental and business-type activities as follows:

Governmental activities:	
General government	\$ 4,656
Public safety	31,845
Recreation and culture	<u>2,829</u>
Total governmental activities	<u>\$ 39,330</u>
Business-type activities:	
Water and sewer	<u>\$ 277,434</u>
Total business-type activities	<u>\$ 277,434</u>

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and Proprietary funds also defer revenue recognition in connection with resources that have been received but not yet earned.

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ -	\$ 88,253

NOTE 6: LONG-TERM LIABILITIES

The Township may issue bonds, loans, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term liabilities at June 30, 2008 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Payments</u>	<u>Original Issue Amount</u>	<u>Balance at Year-End</u>
Business-type Activities:					
Revenue Refunding Bonds:					
1999 Series - Water and Sewer System					
Revenue Refunding Bonds	11/1/07-11/1/21	4.05-5.2%	\$30,000-60,000	\$ 870,000	\$ 635,000
General Obligation Bonds:					
1978 Bond - Bay County West Side					
Regional Sewage Disposal System	5/1/07-5/1/12	5.5%	\$ 118,336	\$ -	\$ 118,336
1999 Contract - Water and Sewer					
System No. 1 Bonds	5/1/07-5/1/12	4.8-5.3%	\$185,000-435,000	\$ 3,170,000	\$ 1,610,000
2005 Contract - Water and Sewer					
System No. 2 Bonds	9/1/07-9/1/25	3.0-4.5%	\$30,000-145,000	\$ 1,800,000	\$ 1,770,000

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The following is a summary of long-term liabilities transactions for the year ended June 30, 2008:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
Business-type activities:					
Revenue Refunding Bonds					
1999 Issue	\$ 665,000	\$ -	\$ (30,000)	\$ 635,000	\$ 30,000
General Obligation Bonds					
1978 Bond	236,672	-	(118,336)	118,336	118,336
1999 Contract	1,965,000	-	(355,000)	1,610,000	375,000
2005 Contract	1,800,000	-	(30,000)	1,770,000	35,000
Compensated absences	<u>10,728</u>	<u>402</u>	<u>(1,609)</u>	<u>9,521</u>	<u>1,428</u>
Total business-type activities					
- long-term liabilities	<u>\$ 4,677,400</u>	<u>\$ 402</u>	<u>\$ (534,945)</u>	<u>\$ 4,142,857</u>	<u>\$ 559,764</u>

Annual debt service requirements to maturity for all outstanding debt as of June 30, 2008 are as follows:

<u>Year Ended</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 558,336	\$ 191,342	\$ 749,678
2010	470,000	166,723	636,723
2011	500,000	143,707	643,707
2012	535,000	118,600	653,600
2013	115,000	91,000	206,000
2014-2018	705,000	369,600	1,074,600
2019-2023	830,000	188,690	1,018,690
2024-2026	<u>420,000</u>	<u>28,800</u>	<u>448,800</u>
	<u>\$ 4,133,336</u>	<u>\$ 1,298,462</u>	<u>\$ 5,431,798</u>

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Township's governmental and business-type activities in the aggregate are as follows:

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

	<i><u>Governmental Activities</u></i>	<i><u>Business-type Activities</u></i>	<i><u>Total</u></i>
Receivables:			
Property taxes	\$ 24,590	\$ -	\$ 24,590
Accounts	16,951	46,812	63,763
Special assessments	-	832,024	832,024
Accrued interest	-	3,177	3,177
Intergovernmental	<u>58,684</u>	<u>-</u>	<u>58,684</u>
Total receivables	<u>\$ 100,225</u>	<u>\$ 882,013</u>	<u>\$ 982,238</u>
Accounts payable and accrued expenses:			
Accounts	\$ 54,006	\$ 21,132	\$ 75,138
Payroll liabilities	2,555	649	3,204
Accrued interest	<u>-</u>	<u>45,061</u>	<u>45,061</u>
Total accounts payable and accrued expenses	<u>\$ 56,561</u>	<u>\$ 66,842</u>	<u>\$ 123,403</u>

NOTE 8: INTERFUND BALANCES AND TRANSFERS

There are no interfund receivable and payable balances at June 30, 2008.

Interfund transfers reported in the fund statements were as follows:

<i><u>Funds Transferred From</u></i>	<i><u>Funds Transferred To</u></i>	<i><u>Amount</u></i>
General Fund	Nature Park Fund	<u>\$ 4,238</u>

NOTE 9: RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and injuries to employees (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan:

The Township has a defined contribution plan covering employees who are elected officials and the Township secretary. The Township contributes 15% of each participant's projected compensation based on a calendar year basis. The third-party plan administrator is Burnham & Flower Insurance Group. Pension expense for the calendar year ended December 31, 2007 was \$15,968.

Post Employment Benefits:

The Township does not offer any post employment benefits to its retirees.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Deferred Compensation Plan:

The Township offers its employees a voluntary deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

REQUIRED SUPPLEMENTAL INFORMATION

FRANKENLUST TOWNSHIP

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i> <i>Final Budget</i>
Revenues:				
Property taxes	\$ 189,000	\$ 189,000	\$ 210,424	\$ 21,424
Licenses and permits	134,100	134,100	154,417	20,317
State grants	184,000	184,000	191,508	7,508
Charges for services	5,000	5,000	12,543	7,543
Interest and rents	40,000	40,000	17,253	(22,747)
Other revenue	19,500	19,500	17,606	(1,894)
Total revenues	571,600	571,600	603,751	32,151
Expenditures:				
Current				
General government	260,331	259,331	233,226	(26,105)
Public safety	212,300	221,600	188,163	(33,437)
Public works	123,800	109,800	36,082	(73,718)
Community and economic development	20,200	23,700	19,106	(4,594)
Recreation and culture	1,000	1,000	250	(750)
Other	52,000	54,800	47,102	(7,698)
Capital outlay	45,969	45,369	10,124	(35,245)
Total expenditures	715,600	715,600	534,053	(181,547)
Excess (deficiency) of revenues over expenditures	(144,000)	(144,000)	69,698	213,698
Other financing sources (uses):				
Transfers from other funds	5,000	5,000	-	(5,000)
Transfers to other funds	(11,000)	(11,000)	(4,238)	6,762
Total other financing sources (uses)	(6,000)	(6,000)	(4,238)	1,762
Net change in fund balance	(150,000)	(150,000)	65,460	215,460
Fund balance, beginning of year	396,828	396,828	396,828	-
Fund balance, end of year	\$ 246,828	\$ 246,828	\$ 462,288	\$ 215,460

FRANKENLUST TOWNSHIP

TRASH REMOVAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Charges for services	\$ 140,000	\$ 140,000	\$ 139,175	\$ (825)
Interest and rents	-	-	2,808	2,808
Total revenues	140,000	140,000	141,983	1,983
Expenditures:				
Current				
Public works	165,000	170,000	170,939	939
Total expenditures	165,000	170,000	170,939	939
Net change in fund balance	(25,000)	(30,000)	(28,956)	1,044
Fund balance, beginning of year	145,735	145,735	145,735	-
Fund balance, end of year	<u>\$ 120,735</u>	<u>\$ 115,735</u>	<u>\$ 116,779</u>	<u>\$ 1,044</u>

OTHER SUPPLEMENTAL INFORMATION

FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2008

Current Taxes:

Property taxes	\$ 162,940
Administration fees	47,484
	<u>210,424</u>

Licenses and permits:

Nonbusiness licenses and permits	124,619
CATV franchise fees	29,798
	<u>154,417</u>

State Grants:

Summer tax collection reimbursement	9,397
State revenue sharing - sales tax	175,785
Metro Act Authority	6,326
	<u>191,508</u>

Charges for services:

Zoning fees	5,028
Other	7,515
	<u>12,543</u>

Interest and rents:

Interest	<u>17,253</u>
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Other Revenue:

Special assessments	8,717
Reimbursements	7,830
Other	1,059
	<u>17,606</u>

Total revenues	<u><u>\$ 603,751</u></u>
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FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2008

Expenditures:

General Government:

Board:

Personnel	\$ 9,214
Contracted services	6,947
Mileage	100
Dues and memberships	2,996
Conferences and workshops	766
Printing and publications	3,910
	<u>23,933</u>

Supervisor:

Personnel	26,496
Supplies	41
Mileage	738
Conferences and workshops	894
	<u>28,169</u>

Clerk:

Personnel	28,721
Supplies	600
Mileage	1,201
Conferences and workshops	1,000
Repairs and maintenance	8,102
	<u>39,624</u>

Audit:

Contracted services	<u>5,350</u>
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Board of Review:

Contracted services	<u>900</u>
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Treasurer:

Personnel	31,800
Supplies	550
Contracted services	5,215
Mileage	735
Conferences and workshops	791
Other	18
	<u>39,109</u>

Assessor:

Personnel	5,304
Supplies	2,480
Contracted services	28,788
Mileage	18
	<u>36,590</u>

Elections:

Supplies	3,237
Contracted services	2,245
	<u>5,482</u>

FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2008

Expenditures, continued:

General Government, continued:

Building and Grounds:

Personnel	21,940
Supplies	5,255
Contracted services	3,110
Telephone	2,341
Utilities	12,500
Repairs and maintenance	6,937
	<u>52,083</u>

Attorney:

Contracted services	<u>1,986</u>
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Total general government	<u>233,226</u>
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Public Safety:

Sheriff Patrol:

Contracted services	<u>7,919</u>
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Liquor Control:

Mileage	<u>240</u>
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Fire:

Personnel	37,142
Supplies	5,215
Conferences and workshops	1,151
Insurance	26,439
Repairs and maintenance	13,811
	<u>83,758</u>

Inspection Services:

Personnel	86,302
Mileage	964
Conferences and workshops	2,726
Other	6,254
	<u>96,246</u>

Total public safety	<u>188,163</u>
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Public Works:

Drains:

Contracted services	<u>4,804</u>
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Roads:

Contracted services	<u>12,446</u>
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FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2008

Expenditures, continued:

Public Works, continued:

Street Lighting:

Utilities	10,606
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Other:

Personnel	6,310
Contracted services	321
Utilities	695
Repairs and maintenance	900
	<u>8,226</u>

Total public works	<u>36,082</u>
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Community and Economic Development:

Planning and Zoning:

Personnel	14,205
Supplies	208
Contracted services	3,974
Conferences and workshops	719
	<u>19,106</u>

Recreation and Culture:

Parks and Recreation:

Other	<u>250</u>
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Other:

Insurance	21,979
Employee benefits and fees	17,979
Payroll taxes	7,144
	<u>47,102</u>

Capital Outlay:

General government	<u>10,124</u>
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Total expenditures	<u>534,053</u>
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Other Financing Uses:

Transfers to other funds	<u>4,238</u>
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Total expenditures and other financing uses	<u><u>\$ 538,291</u></u>
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FRANKENLUST TOWNSHIP

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2008

	<i>Fire Equipment Fund</i>	<i>Emergency Service Fund</i>	<i>Liquor Fund</i>	<i>Historical Fund</i>	<i>Nature Park Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Assets:						
Cash and cash equivalents	\$ 346,555	\$ 20,488	\$ 3,591	\$ 6,587	\$ 7,637	\$ 384,858
Taxes receivable	<u>7,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,108</u>
Total assets	<u><u>\$ 353,663</u></u>	<u><u>\$ 20,488</u></u>	<u><u>\$ 3,591</u></u>	<u><u>\$ 6,587</u></u>	<u><u>\$ 7,637</u></u>	<u><u>\$ 391,966</u></u>
Fund Balances:						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,770	\$ 2,770
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,770</u>	<u>2,770</u>
Fund balances:						
Unreserved:						
Special revenue funds	<u>353,663</u>	<u>20,488</u>	<u>3,591</u>	<u>6,587</u>	<u>4,867</u>	<u>389,196</u>
Total liabilities and fund balances	<u><u>\$ 353,663</u></u>	<u><u>\$ 20,488</u></u>	<u><u>\$ 3,591</u></u>	<u><u>\$ 6,587</u></u>	<u><u>\$ 7,637</u></u>	<u><u>\$ 391,966</u></u>

FRANKENLUST TOWNSHIP

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	<i>Fire Equipment Fund</i>	<i>Emergency Service Fund</i>	<i>Liquor Fund</i>	<i>Historical Fund</i>	<i>Nature Park Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Revenues:						
Property taxes	\$ 84,769	\$ -	\$ -	\$ -	\$ -	\$ 84,769
State grants	-	-	3,637	-	-	3,637
Charges for services	-	4,963	-	-	-	4,963
Interest and rents	7,901	89	-	9	33	8,032
Other revenue	-	-	-	3,250	800	4,050
Total revenues	<u>92,670</u>	<u>5,052</u>	<u>3,637</u>	<u>3,259</u>	<u>833</u>	<u>105,451</u>
Expenditures:						
Current						
Public safety	581	130	3,393	-	-	4,104
Recreation and culture	-	-	-	-	8,705	8,705
Total expenditures	<u>581</u>	<u>130</u>	<u>3,393</u>	<u>-</u>	<u>8,705</u>	<u>12,809</u>
Excess (deficiency) of revenues over expenditures	<u>92,089</u>	<u>4,922</u>	<u>244</u>	<u>3,259</u>	<u>(7,872)</u>	<u>92,642</u>
Other financing sources:						
Transfers from other funds	-	-	-	-	4,238	4,238
Net change in fund balances	92,089	4,922	244	3,259	(3,634)	96,880
Fund balances, beginning of year	<u>261,574</u>	<u>15,566</u>	<u>3,347</u>	<u>3,328</u>	<u>8,501</u>	<u>292,316</u>
Fund balances, end of year	<u>\$ 353,663</u>	<u>\$ 20,488</u>	<u>\$ 3,591</u>	<u>\$ 6,587</u>	<u>\$ 4,867</u>	<u>\$ 389,196</u>

FRANKENLUST TOWNSHIP

FIDUCIARY FUND – AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2008

Current Property Tax Collection Fund

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
Assets:				
Cash and cash equivalents	\$ 3,396	\$ 4,469,082	\$ 4,472,454	\$ 24
Total assets	<u>\$ 3,396</u>	<u>\$ 4,469,082</u>	<u>\$ 4,472,454</u>	<u>\$ 24</u>
Fund Balances:				
Liabilities:				
Accounts payable	\$ 434	\$ 565,482	\$ 565,892	\$ 24
Due to other governmental units	<u>2,962</u>	<u>3,903,600</u>	<u>3,906,562</u>	<u>-</u>
Total liabilities	<u>\$ 3,396</u>	<u>\$ 4,469,082</u>	<u>\$ 4,472,454</u>	<u>\$ 24</u>

FRANKENLUST TOWNSHIP

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2008

BAY COUNTY WEST SIDE REGIONAL SEWAGE DISPOSAL SYSTEM BONDS FRANKENLUST'S PORTION 7.396%

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Principal due</i>	<i>Interest due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2009	5.50%	\$ 118,336	\$ 3,254	\$ 121,590
		<u>\$ 118,336</u>	<u>\$ 3,254</u>	<u>\$ 121,590</u>

1999 WATER AND SEWER REFUNDING BONDS BOND PAYABLE TO MICHIGAN MUNICIPAL BOND AUTHORITY

Issue dated February 9, 1999 in the amount of	\$ 870,000
Less: Principal paid in prior years	(205,000)
Principal paid in current year	<u>(30,000)</u>
Balance payable at June 30, 2008	<u>\$ 635,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Principal due</i> <i>November 1</i>	<i>Interest due</i> <i>November 1</i>	<i>Interest due</i> <i>May 1</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2009	4.30%	\$ 30,000	\$ 15,777	\$ 15,132	\$ 60,909
2010	4.40%	35,000	15,132	14,362	64,494
2011	4.50%	35,000	14,362	13,575	62,937
2012	4.60%	35,000	13,575	12,770	61,345
2013	4.70%	40,000	12,770	11,830	64,600
2014	5.00%	40,000	11,830	10,830	62,660
2015	5.00%	45,000	10,830	9,705	65,535
2016	5.00%	45,000	9,705	8,580	63,285
2017	5.20%	50,000	8,580	7,280	65,860
2018	5.20%	50,000	7,280	5,980	63,260
2019	5.20%	55,000	5,980	4,550	65,530
2020	5.20%	55,000	4,550	3,120	62,670
2021	5.20%	60,000	3,120	1,560	64,680
2022	5.20%	60,000	1,560	-	61,560
		<u>\$ 635,000</u>	<u>\$ 135,051</u>	<u>\$ 119,274</u>	<u>\$ 889,325</u>

FRANKENLUST TOWNSHIP

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2008

1999 WATER AND SEWER SYSTEM NO. 1 BONDS

CONTRACT PAYABLE TO BAY AREA UTILITIES AUTHORITY

Issue dated August 24, 1999 in the amount of	\$ 3,170,000
Less: Principal paid in prior years	(1,205,000)
Principal paid in current year	<u>(355,000)</u>
Balance payable at June 30, 2008	<u>\$ 1,610,000</u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Interest due</u></i> <i><u>November 1</u></i>	<i><u>Principal due</u></i> <i><u>May 1</u></i>	<i><u>Interest due</u></i> <i><u>May 1</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2009	5.00%	\$ 41,507	\$ 375,000	\$ 41,507	\$ 458,014
2010	5.10%	32,132	390,000	32,132	454,264
2011	5.20%	22,187	410,000	22,187	454,374
2012	5.30%	<u>11,527</u>	<u>435,000</u>	<u>11,527</u>	<u>458,054</u>
		<u>\$ 107,353</u>	<u>\$ 1,610,000</u>	<u>\$ 107,353</u>	<u>\$ 1,824,706</u>

FRANKENLUST TOWNSHIP

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2008

2005 SANITARY SEWER SYSTEM NO. 2 BONDS

CONTRACT PAYABLE TO BAY AREA UTILITIES AUTHORITY

Issue dated March 1, 2005 in the amount of	\$ 1,800,000
Less: Principal paid in prior years	-
Principal paid in current year	<u>(30,000)</u>
Balance payable at June 30, 2008	<u>\$ 1,770,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due September 1</i>	<i>Interest due September 1</i>	<i>Interest due March 1</i>	<i>Total Annual Requirement</i>
2009	3.00%	\$ 35,000	\$ 37,344	\$ 36,819	\$ 109,163
2010	3.00%	45,000	36,819	36,144	117,963
2011	3.25%	55,000	36,144	35,250	126,394
2012	4.00%	65,000	35,250	33,950	134,200
2013	4.00%	75,000	33,950	32,450	141,400
2014	4.00%	85,000	32,450	30,750	148,200
2015	4.00%	90,000	30,750	28,950	149,700
2016	4.00%	95,000	28,950	27,050	151,000
2017	4.00%	100,000	27,050	25,050	152,100
2018	4.00%	105,000	25,050	22,950	153,000
2019	4.50%	110,000	22,950	20,475	153,425
2020	4.50%	115,000	20,475	17,888	153,363
2021	4.50%	120,000	17,888	15,188	153,076
2022	4.50%	125,000	15,188	12,375	152,563
2023	4.50%	130,000	12,375	9,450	151,825
2024	4.50%	135,000	9,450	6,413	150,863
2025	4.50%	140,000	6,413	3,263	149,676
2026	4.50%	145,000	3,263	-	148,263
		<u>\$ 1,770,000</u>	<u>\$ 431,759</u>	<u>\$ 394,415</u>	<u>\$ 2,596,174</u>



REQUIRED COMMUNICATION TO FRANKENLUST TOWNSHIP IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Township Board
Frankenlust Township

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankenlust Township for the year ended June 30, 2008, and have issued our report thereon dated September 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 8, 2006, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Frankenlust Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates may be particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of Frankenlust Township as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Frankenlust Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follow:

Recording, Processing and Summarizing Accounting Data

Criteria: All governmental units are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

This communication is intended solely for the information and use of management, Township Board, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants
Saginaw, Michigan

September 24, 2008



REQUIRED COMMUNICATION TO FRANKENLUST TOWNSHIP IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Township Board
Frankenlust Township

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankenlust Township for the year ended June 30, 2008, and have issued our report thereon dated September 24, 2008. Professional standards require that we provide you with the following information related to our audit.

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Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

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View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

This communication is intended solely for the information and use of management, Township Board, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants
Saginaw, Michigan

September 24, 2008